Risk Intelligent Enterprise Management Policy

Effective date   The Risk Intelligent Enterprise Management Policy (the "Policy") is effective immediately upon adoption and supersedes all previous enterprise-wide risk management policies.

Purpose   The purpose of this Policy is to formalize and communicate CalPERS commitment and approach for Risk Intelligent Enterprise Management (RIEM). This Policy will ensure that an effective set of risk intelligent enterprise management policies, practices, and systems are in place as an integral part of the way CalPERS conducts its business. This policy acknowledges that fundamental to becoming a risk intelligent organization is the embedding of risk intelligent management strategies, processes and behaviors as a core governance principle.

CalPERS provides value by advancing the financial and health security for all who participate in the system. Key strategic goals are to provide sustainable pension and health benefit products and services responsive to and valued by members, employers and stakeholders.

The goal of risk intelligent enterprise management is to more systematically identify, evaluate, consider, address, and monitor value and risk as part of core decision-making and implementation. Implementation of risk intelligent management strategies across the entire enterprise will create future and protect existing value.

This Policy recognizes that the discussions of value and risk are inseparable. For example, calculated and prudent risks must be taken and properly managed to innovate, take advantage of opportunities, and create future value, while at the same time protecting existing assets from loss, harm, fraud, misuse, and abuse.

The Policy is intended to provide guidance to Executive Management in the development and implementation of such a system.

Strategic objective   A strong risk intelligent enterprise will embed risk management into all business strategies, operations, and culture. By understanding and managing risk, we will then effectively accomplish the following:

- More efficiently and effectively achieve its mission and strategic goals and objectives

Risk Intelligent Enterprise Management Policy, Continued

Strategic objective (continued)

- Improve governance and accountability
- Aid risk intelligent decision-making about CalPERS future strategies, policies, processes, and programs
- Enhance the ability to seize opportunities and manage uncertainties
- Align and embed risk intelligent management in key organizational processes and functions
- Ensure that consideration of risk is the duty and responsibility of all members of the management team
- Ensure compliance with fiduciary, legal, and policy commitments and requirements
- Adapt successfully to change
- Anticipate problems before they occur

Guiding principles

The Board sets forth the following guiding risk-intelligent principles:

Value and Risk Governance
- Common definitions of "risk" and risk terminology are used consistently throughout the organization.
- Risk management becomes part of the organization's decision-making culture.
- A common framework, supported by appropriate standards, is used throughout the organization to manage value and risk.
- Key roles, responsibilities, and authority relating to risk management are clearly defined and delineated.
- The Board has appropriate transparency and visibility into the organization's risk management practices to discharge their responsibilities.

Risk Infrastructure and Management
- Executive Management is charged with the primary responsibility for designing, implementing, and maintaining an effective risk management program.
- A common risk management infrastructure is used to support the business units and functions in the performance of their responsibilities.

Risk Intelligent Enterprise Management Policy, Continued

Guiding principles
(continued)

Risk Ownership
Business units (branches, divisions, offices) are responsible for the performance of their business and accountable for the risks they take within the risk framework established by Executive Management.

Responsibilities

Board of Administration
- Recognizes that the effective and efficient management of risk across the enterprise is an integral part of sound governance and management practice
- Acknowledges its responsibility for establishing CalPERS risk policies and tolerance parameters where appropriate
- Holds the Chief Executive Officer and Executive Management accountable for the establishment and implementation of the organization's risk intelligent enterprise management strategy and architecture
- The Chair of each standing committee is responsible for ensuring that all policy items brought before their committee contain an appropriate risk assessment.
- Standing committees make recommendations to the full Board with regard to risk tolerance parameters and, as appropriate, address specific risk issues brought forward by management.
- Provides oversight with regard to the overall architecture and structure of CalPERS Risk Intelligent Enterprise Management activities.
- Responsibility for managing enterprise risk remains with Executive Management.

Executive Management
- Implement practices to ensure that consistent risk identification, assessment, treatment, monitoring, and reporting practices are applied throughout the organization whenever significant decisions are being considered. These may include, but are not limited to, the following topics:
    - Strategic Planning
    - Asset/Liability Management
    - Enterprise Governance
    - Project Management
    - Customer Service
    - Program Administration
    - Policy Development

Risk Intelligent Enterprise Management Policy, Continued

Responsibilities
(continued)

- Provide the Board, through its standing committees, and as appropriate, the full Board, with regular reports that will enable the Board to understand the management of CalPERS most significant opportunities and risk exposures and to evaluate whether the organization has an appropriate and effective risk intelligent enterprise management strategy and structure.
- Provide the Board's Ad Hoc Risk Committee with reports and information that will enable it to evaluate whether the organization has implemented an appropriate and effective risk intelligent enterprise management strategy and structure.